

Message Text

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PAGE 01 BRUSSE 09236 01 OF 02 021710Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 DODE-00 PM-05 H-01 L-03 PA-01 PRS-01 /091 W
-----047149 021841Z /44

R 021703Z AUG 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 1198
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE

LIMITED OFFICIAL USE SECTION 01 OF 02 BRUSSELS 09236

USOECD ALSO FOR EMBASSY

ALSO FOR USEEC

E.O. 11652: N/A
TAGS: ECON, EFIN, ECRP, BE
SUBJECT: BELGIAN GOVERNMENT ANNOUNCES 1978 BUDGET

REF: BRUSSELS A-57, BRUSSELS 1471

1. SUMMARY. THE BELGIAN NATIONAL BUDGET FOR 1978
PROPOSES OPERATIONAL SPENDING OF BF 956.1 BILLION
AGAINST RECEIPTS OF BF 932.2 BILLION, I.E. A BF 23.9
BILLION DEFICIT. THIS CONTRASTS WITH A 1977 OPERATING
DEFICIT OF OVER BF 60 BILLION. THE NEW BUDGET IS
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PAGE 02 BRUSSE 09236 01 OF 02 021710Z

TOUTED AS AIMED PRIMARILY AT EASING UNEMPLOYMENT BY
MEANS OF (A) MORE TEMPORARY PUBLIC JOBS AND EXTENSION
OF OTHER LABOR MARKET MEASURES; (B) A 20 PERCENT
HIKE IN THE SEPARATE INVESTMENT PROGRAM TO BF 200
BILLION; (C) EASED TAXATION ON BUSINESS (OF WHICH FEW
DETAILS ARE NOW AVAILABLE). TAX REVENUES WILL GO UP --
SPECIFICALLY, HIGHER VAT RATES ON A NUMBER OF BASIC CON-

SUMER ITEMS -- AND FISCAL JUGGLING WILL CREATE OTHERS.
ON THE WHOLE, THIS "SELECTIVE RECOVERY" BUDGET MAY BE
SOMEWHAT MORE REALISTIC THAN ITS RECENT PREDECESSORS,
EVEN IF IT DOES NOT CONSTITUTE A START TO FISCAL REFORM
NOR ADD MUCH NEW STIMULATION TO THE GENERAL ECONOMY.
END SUMMARY.

2. BEGIN UNCLASSIFIED. FOLLOWING A WEEKEND OF HECTIC
LAST-MINUTE DECISION-TAKING, THE BELGIAN GOVERNMENT
ANNOUNCED LATE JULY 31 ITS 1978 NATIONAL BUDGET AND
REVISED ESTIMATES FOR 1977. THE NEW BUDGET WILL COVER
THE YEAR BEGINNING JANUARY 1 AND WILL BE SUBMITTED TO
PARLIAMENT WHEN IT RECONVENES IN OCTOBER. COMPARED WITH
1977, ITS OVERALL LEVELS ARE:

(BILLIONS BF)

	1. 1977	2. 1977	3. 1978	3/1	3/2
INITIAL		REV.	INITIAL	(PERCENT)	(PCT.)

OPERATING BUDGET

EXPENSES	836.1	860.6	956.1	14.4	11.0
RECEIPTS	836.7	800.3	932.2	11.4	16.5

INVESTMENT

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PAGE 03 BRUSSE 09236 01 OF 02 021710Z

PROGRAM	165.9	165.9	200.0	20.0	20.0
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(OF WHICH CURRENT YEAR

AUTHORITY	(110.4)	(100 EST)	(136.0)	23.0	36.0
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3. IN ITS COMMUNIQUE, THE GOVERNMENT DESCRIBES POLICY
CHOICES IN THE NEW BUDGET AS AIMED, ABOVE ALL, AT
REDUCING UNEMPLOYMENT. THIS EFFORT WILL BE BASED ON:

(A) "PLAN SPITAEELS" (NAMED AFTER THE MINISTER OF
LABOR) WHICH IS TO CUT THE NUMBER OF JOBLESS BY AN
ANNUAL AVERAGE OF 70,000 (TO A TOTAL OF 220,000) PRIMARILY
BY MEANS OF MORE TEMPORARY, PUBLIC JOBS, ACCELERATED
RETIREMENT FOR OLDER WORKERS AND FURTHER INDUCEMENTS
TO FIRMS TO HIRE YOUNG TRAINEES (DETAILS FOLLOW SEPAIR).
THE NET COST OF THIS PROGRAM (I.E., ADDITIONAL BUDGET
OUTLAYS LESS THE UNEMPLOYMENT COMPENSATION OTHERWISE
DUE) WILL BE AROUND BF 10 BILLION;

(B) INCREASES OVER 1977 IN INVESTMENT SPENDING, AS
NOTED ABOVE, WITH SPECIAL EMPHASIS ON LABOR-INTENSIVE
PROJECTS WHICH CAN BE LAUNCHED WITH MINIMAL DELAY;

(C) ENCOURAGEMENT OF PRIVATE INVESTMENT THROUGH ENACTMENT OF TAX RELIEF FOR BUSINESS (E.G., ACCELERATED DEPRECIATION/AMORTIZATION). DETAILS ARE TO BE DEVELOPED IN SEPTEMBER. ALSO, BELGIUM'S 5 PERCENT VAT ON CAPITAL GOODS IS ELIMINATED FOR "LABOR-CREATING" INVESTMENTS (THIS APPEARS TO FALL SHORT OF THE TAX'S TOTAL ABOLISHMENT LONG DEMANDED BY LOCAL BUSINESSMEN AND FOREIGN INVESTORS). THESE MEASURES WILL COST THE TREASURY AN ESTIMATED BF 8.4 BILLION.

4. TO HELP PAY FOR THESE PROGRAMS, THE GOVERNMENT PLANS TO INCREASE REVENUES BY: (A) IMPLEMENTING THE ENTIRE

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PAGE 01 BRUSSE 09236 02 OF 02 021725Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 BRUSSELS 09236

PROGRAM OF VAT INCREASES DECREED BY LAST FEBRUARY'S "EGMONT PLAN" (SEE BRUSSELS 1471 AND 2455), PLUS COMBINING THE CURRENT VAT RATES OF 14 AND 18 PERCENT INTO A SINGLE NEW RATE OF 16 PERCENT. THIS LATTER MOVE, ALTHOUGH CAREFULLY BILLED AS A MERE "SIMPLIFICATION" FOR SMALL BUSINESS AND CONSUMERS, WILL BRING IN AN ADDITIONAL BF 8.2 BILLION THROUGH A HIGHER TAX BITE ON ELECTRICITY, GASOLINE, HOMES, RESTAURANT/CAFE BILLS, PHONE CALLS AND OTHER BASIC CONSUMER ITEMS; (B) HIGHER

TAXES ON TOBACCO PRODUCTS, AMOUNTING TO ABOUT BF 6 ON A PACK OF CIGARETTES, AND EARMARKED DIRECTLY FOR THE FINAN-
CIALLY TROUBLED PUBLIC HEALTH CARE PROGRAM; (C) INCLUSION
FOR THE FIRST TIME OF LOCAL COMMUNAL TAXES IN THE
NATIONAL INCOME TAX WITHHOLDING SYSTEM, A STRATEGEM
WHICH WILL NET A ONE-TIME ADVANCE IN 1978 FOR THE
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PAGE 02 BRUSSE 09236 02 OF 02 021725Z

TREASURY OF ABOUT BF 20 BILLION; (D) INTENSIFICATION OF
EFFORTS TO COMBAT TAX EVASION.

5. THE BOTTOM LINE OF THESE CALCULATIONS IS A BF 23.9
BILLION OPERATING DEFICIT FOR NEXT YEAR. THIS COMES AS
SOMETHING OF A SURPRISE, BEING CONSIDERABLY LESS THAN THE
BF 60.3 BILLION OF RED INK TO WHICH THE GOVERNMENT IS
NOW RESIGNED FOR 1977. THE FIGURE IS BASED UPON PRO-
JECTED INCREASES FOR NEXT YEAR OF 3 PERCENT IN REAL GNP
GROWTH AND 8.2 PERCENT IN PRICES, ESTIMATES WHICH ARE
CLOSE TO THOSE OF OTHER LOCAL AND INTERNATIONAL
OBSERVERS. THE RISE IN THE PUBLIC DEBT IS PROJECTED
AT BF 149 BILLION IN 1978, COMPARED TO AN ESTIMATED
BF 159 BILLION FOR THIS YEAR. THIS IMPLIES GROSS
FINANCING REQUIREMENTS FOR BOTH CURRENT AND INVESTMENT
SPENDING OF ABOUT BF 237 BILLION -- A LEVEL WHICH WOULD,
IF REALIZED, REDUCE THE GOVERNMENT'S RELATIVE POSITION
SOMEWHAT AS A BORROWER ON LOCAL MONEY MARKETS. END
UNCLASSIFIED.

6. BEGIN LOU. COMMENT: THE FRAMING OF THE 1978 BUDGET
WAS A RUSHED AND ARDUOUS TASK FOR THE NEW TINDEMANS
COALITION. THE FINISHED PRODUCT LEAVES PLENTY OF ROOM
FOR DISCUSSION -- PARTICULARLY AS CONCERNS THE RESORT,
ONCE AGAIN, TO MORE INDIRECT TAXATION AND ITS OPTIMISTIC
PROJECTIONS FOR REDUCED JOBLESSNESS. ITS
CENTERPIECE, THE "PLAN SPITAELS", MAY EASE SOME SOCIAL
STRAINS, BUT DOES NOT CREATE ANY NEW, PERMANENT WORK OR
DEAL WITH THE STRUCTURAL CAUSES OF UNEMPLOYMENT IN
BELGIUM. IN GENERAL, THOUGH, THE 1978 BUDGET SEEMS TO
BE BASED ON MORE REALISTIC ASSUMPTIONS AT THIS STAGE
THAN WERE ITS LAST TWO PREDECESSORS. DESPITE ITS
ADVANCE BILLING, IT IS NOT A "REFORM" BUDGET; POLITICAL
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PAGE 03 BRUSSE 09236 02 OF 02 021725Z

CONDITIONS PERMITTING, THE GOVERNMENT'S FIVE-YEAR
PLAN TO REORDER PUBLIC FINANCES WILL ONLY GET UNDER
WAY WITH THE BUDGET FOR 1979.

7. IN MACROECONOMIC TERMS, THE BUDGET'S EFFECT WILL PROBABLY ADD LITTLE, IF ANYTHING, TO CURRENT FISCAL STIMULUS (7 PERCENT OF GNP) -- THE WEEKEND'S DECISIONS APPEAR TO NET OUT TO BF 20 BILLION LESS FOR PRIVATE CONSUMPTION IN 1978 AS AGAINST THE ROUGHLY BF 30 BILLION MEDIUM-TERM HIKE IN PUBLIC INVESTMENT. ANY SERIOUS REVIVAL IN PRIVATE INVESTMENT IS PROBABLY AT LEAST 12-18 MONTHS AWAY, GIVEN CURRENT MARKET CONDITIONS, NO MATTER WHAT INCENTIVES ARE OFFERED. THE BYWORD NOW, AS CITED IN THE GOVERNMENT COMMUNIQUE, IS "SELECTIVE RECOVERY", I.E. MORE FOCUSED EFFORTS THROUGH JOB PROGRAMS AND PUBLIC WORKS TO SUPPORT CERTAIN INDUSTRIAL SECTORS AND LABOR GROUPS IN SERIOUS DIFFICULTY. THIS EMPHASIS IS IN LINE WITH RECENT OECD AND EC RECOMMENDATIONS -- AND, IN VIEW OF CONSTRAINTS IMPOSED BY THE BUDGET DEFICIT, IS THE THEME BY WHICH THE GOVERNMENT HOPES TO MAKE A VIRTUE OF NECESSITY. END LOU. CHAMBERS

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